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Message Text

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ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 /026 W
----------301441Z 032534 /43
O 301325Z DEC 76
FM AMEMBASSY CAIRO
TO SECSTATE WASHDC IMMEDIATE 0121

C O N F I D E N T I A L SECTION 1 OF 2 CAIRO 17959

STADIS//////////////////////////////

EXDIS

E.O. 11652: GDS
TAGS: EAGR, EAID, EFIN, EG
SUBJECT: CCC EXPORT CREDIT SALES PROGRAM (GSM-4) AND
TITLE I PL-480 PROGRAM N EGYPT

REFS (A) STATE 309238
(B) CAIRO 15812
(C) STATE 276830
(D) CAIRO 17478
(E) CAIRO 14420
(F) CAIRO 17674

(G) CAIRO 13346

1. SUMMARY. MISSION ACCEPTS DEPARTMENT VIEW THAT NEW LINE OF CREDIT UNDER GSM-4 NOT IN BEST INTEREST OF GOE AND WILL SO INFORM LATTER. HOWEVER, MISSION CONCERNED THAT FAILURE TO PROVIDE SOYBEAN OIL, DRY EDIBLE BEANS AND ADDITIONAL TOBACCO UNDER FY-1977 TITLE I PROGRAM WILL BE VIEWED BY GOE AS PREVERSAL USG POLICY OF MAXIMUM ECONOMIC ASSISTANCE TO EGYPT AND SADAT. AS MINIMUM, MISSION RECOMMENDS ADDITIONAL TOBACCO AND WHEAT UNDER TITLE I AND BELIEVES LATTER CONFIDENTIAL

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CAN BE JUSTIFIED ON BASIS GOE COMMERCIAL PURCHASES AND FOOD AID COMMITTMENTS TO DATE. MISSION FURTHER RECOMMENDS USG ASSISTANCE AND SUPPORT FOR GOE REQUEST TO RENEGOTIATE CURRENT WHEAT/WHEAT FLOUR UMR TO LOWER LEVEL. END SUMMARY.

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2. CCC EXPORT CREDIT SALES PROGRAM - GSM-4; NOTWITHSTANDING USDA CONTENTION THEY HAVE NEVER GIVEN ENCOURAGEMENT THAT NEW LINE OF CREDIT UNDER GSM-4 WOULD BE AVAILABLE TO GOE IF ARREARANGES WERE PAID, THIS HAS BEEN MISSION UNDERSTANDING FOR PAST TWO (2) YEARS. HOWEVER, MISSION DOES NOT WISH TO ADVOCATE ANY ACTION WHICH FINANCIAL EXPERTS BELIEVE NOT IN ECONOMIC INTEREST OF GOE. WE ACCEPT PARA. 2 OF REFTEL (A) AND WILL SO INFORM GOE AT APPROPRIATE TIME. WE WILL ALSO USE POINTS IN PARA. 3 OF REFTEL(A) TO URGE GOE PAY ALL ARREARAGES. MISSION WOULD ALSO HOPE TO OFFER GOE SOME ADDITIONAL ASSISTANCE UNDER PL-480 AT SAME TIME TO COUNTER GOE DISAPPOINTMENT RE GSM-4.

3. FY-1977 TITLE I PL-480 PROGRAM: MISSION HAS INFORMED GOE SEVERAL TIMES THAT CORN, COTTON AND RICE NOT AVAILABLE UNDER TITLE I - SEE REFTEL (B). HOWEVER, AS A RESULT OUR INQUIRY FOR DATA REQUESTED PARA. 7 OF REFTEL (C) NEEDED TO SUPPORT INCREASE IN PROGRAM. GOE IS AWARE THAT SOYBEAN OIL, DRY EDIBLE BEANS, AND ADDITIONAL TOBACCO MIGHT BE ADDED TO FY-1977 PROGRAM. AS POINTED OUT IN PARA 4 OF REFTEL (D), THIS POINT IN TIME IS MOST INAPPROPRIATE MOMENT TO TAKE ACTION WHICH GOE WILL CONSTRUE AS WITHDRAWAL OF OFFER ALREADY MADE, EVEN THOUGH THE Y HAVE BEEN REMINDED THAT TITLE I PROGRAM IS FLUID SITUATION SUBJECT TO CONSTANT REVIEW AND CHANGE. SUCH ACTION WOULD PROBABLY BE VIEWED AS REVERSAL OF USG POLICY TOWARD CONFIDENTIAL

GOE, AT LEAST IN ECONOMIC FIELD, WITH POSSIBLE ADVERSE IMPLICATIONS IN POLITICAL ARENA. RECOGNIZING THAT SLOWNESS OF GOE IN SUBMITTING FORMAL REQUEST FOR INCREASE IN FY-1977 PROGRAM IS PARTLY RESPONSIBLE FOR SITUATION,MISSION CONSIDERS IT IMPORTANT THAT WE PRESERVE AT LEAST PART OF OFFER WHICH GOE CONSIDERS ALREADY EXTENDED, PLUS ADDITIONAL WHEAT (DISCUSSED BELOW). OF THE THREE (3) COMMODITIES, TOBACCO IS BY FAR MOST IMPORTANT AND MISSION BELIEVES THAT ADDITIONAL 8,000 TONS MENTIONED PARA 4 OF REFTEL (A) WOULD PRESERVE BONA FIDES OF USG OFFER IN EYES OF GOE. AT PRESENT, DOMESTICALLY PRODUCED CIGARETTS IN SHORT SUPPLY WITH QUEUES AT TOBACCONISTS THROUGHOUT CAIRO. ADDITIONAL TOBACCO FROM USG, WITH APPROPRIATE PUBLICITY, WOULD HAVE IMPACT ON GENERAL PUBLIC SECOND ONLY TO THAT OF ADDITIONAL WHEAT.

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4. ADDITIONAL WHEAT UNDER TITLE I: AS REPORTED REFTEL (E), GOE HAD HOPES FOR UP TO TWO (2) MILLION TONS WHEAT/WHEAT FLOUR UNDER FY-1977 TITLE I PROGRAM, WAS DISAPPOINTED THAT ONLY ONE (1) MILLION TONS WERE OFFERED, AND AGREED TO INCREASE IN UMR TO 2.6 MILLION TONS ONLY BECUASE NEEDS WOULD REQUIRE TOTAL PURCHASES OF AT LEAST 3.6 MILLION TONS. MISSION BELIEVES THAT COMMERCIAL PURCHASES TO DATE AND PRESENT FOOD AID COMMITTMENTS FOR FY-1977 LEAVE ROOM FOR ADDITIONAL 300-500,000 TONS WHEAT UNDER TITLE I, ALTHOUGH DECREASE IN UMR WOULD BE DESIRABLE IN ANY EVENT (DISCUSSED BELOW). FOR MAXIMUM IMPACT, MISSION RECOMMENDS THAT ALL OF ANY INCREASE GRANTED BE IN FORM OF WHEAT AND NOT REPEAT NOT WHEAT FLOUR.

5. COMMERCIAL PURCHASES AND FOOD AID COMMITTMENTS FOR FY-1977: MISSION HAS ASKED GOE FOR MORE DETAILS CONFIDENTIAL

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CONCERNING ESTIMATES REPORTED REFTEL (F) BUT BELIEVES THAT SLIPPAGE BETWEEN US FISCAL YEAR AND DELIVERY PERIODS UNDER CONTRACTS TO DATE LEAVE ROOM FOR ADDITIONAL 300-500,000 TONS WHEAT UNDER TITLE I.

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ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 /026 W
---------- 301442Z 032435 /43
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C O N F I D E N T I A L SECTION 2 OF 2 CAIRO 17959

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GOE ESTIMATES OF PURCHAES AND COMMITTMENTS INCUDED
ALL THOSE WITH SHIPMENT DURING ANY PART OF FY-1977
AND SUBSTNATIAL PORTION OF DELIVERIES
ALMOST CERTAIN TO FALL OUTSIDE. FOR EXAMPLE,
SHIPPING PERIODS FOR WHEAT PURCHASES FROM AUSTRALIA
AND CANADA REPORTED BY GOE AS 2/77-1/78 AND 1/77-10/77,
RESPECTIVELY. PORTION OF OCTOBER FLOUR
PURCHASE FROM EC HAS ALREADY BEEN SHIPPED AND COULD
BE COUNTED AGAINST FY-1976 UMR (EXTENDED THROUGH
DECEMBER 31). COMMERCIAL SHIPMENTS DURING FY-1977
ACCORDINGLY LIKELY TO FALL WELL BELOW LEVEL OF APP-
ROXIMATELY 2,425,000 TONS REPORTED REFTEL (F) -
(FLOUR CONVERTED TO WHEAT EQUIVALENT AT AVERAGE
80 PERCENT MILLING RATE).

6. HWEAT/WHEAT FLOUR UMR: GOE CONSIDERS TOTAL
NEEDS FOR FY-1977 TO BE 3.1 MILLION TONS WHEAT AND
6870,000 TONS FLOUR, OR TOTAL APPROXIMATELY 4.0
MILLION TONS WHEAT EQUIVALENT BASIS. EVEN IF GOE
IS HELD TO UMR OF 2.6 MILLION TONS, PRESENT ESTIMATE
OF 90,000 TONS IN FOOD AID FROM OTHER SOURCES WOULD
LEAVE ROOM FOR TITLE I PRGRAM OF 1.31 MILLION TONS
IN FY-1977 TO MEET ESTIMATED TOTAL NEEDS. HOWEVER,
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MISSION BELIEVES URM IS UNREALISTICALLY HIGH, WILL
BE A CONTINUING SOURCE OF TROUBLE AT PRESENT LEVEL,
AND SHOULD BE REDUCED. THIS WOULD ALLOW INCREASE
OF 500,000 TONS OR EVEN MORE IN QUANTITY OF WHEAT
UNDER FY-1977 TITLE I PROGRAM AND MAKE POSSIBLE
SOME RELIEF FOR STRINGENT BALANCE OF PAYMENTS
SITUATION OF GOE. DO NOT ANTICIPATE THAT GOE
WOULD HAVE ANY IDIFFICULTY IN STRETHCING OUT DELIVERY
OF COMMERCIAL PURCHASES IN THE UNLIKELY EVENT SUCH
ACTION NEEDED TO ACCOMMODATE INCREASE IN TITLE I
PROGRAM. GOE FEELS IT AGREED TO PRESENT LEVEL OF
UMR BECUASE IT HAD NO CHOICE AND, AS REPORTED
REFTEL (G), ESTIMATES PREPARED BY MISSION TEND TO
SUPPORT UMR OF ONLY 2.0 MILLION TONS. GOE IS AWARE
THEY MUST PROPOSE REDUCTION OF UMR IN VENUE OF
FAO COMMITTEE ON SURPLUS DISPOSAL (CSD).
UNDERSECRETARY EL NAHAL, MINSUPPLY, TOLD AGATTACHE
ON DECEMBER 20 THEY WOULD PURSUE THAT COURSE OF
ACTION AND TOLD AID DIRECTOR ON DECEMBER 28 THAT
EGYPTIAN DELEGATION IN ROME HAD BEEN INSTRUCTED TO
RAISE POSSIBILITY OF RENEGOTIATING UMR. HOWEVER,
EL NAHAL FURTHER STATED THAT GOE LACKS ANALYTICAL
CAPACITY TO DEVELOP EFFECTIVE PRESENTATION TO CSD.
HE REQUESTED ASSISTANCE FROM MISSION WHICH AID
DIRECTOR AGREED TO PROVIDE WITH UNDERSTANDING

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THIS SHOULD NOT BE TAKEN AS INDICATION USG WOULD
INCREASE FY-1977 TITLE I WHEAT PROGRAM.
EL NAHAL WAS ENTHUSIASTIC ABOUT RECEIVING SUCH
HELP AND OFFERED TO MAKE APPROPRIATE ARRANGMEMENTS.
MISSION BELIEVES USG ASSISTANCE IN DEVELOPING
EFFECTIVE PRESENTATION AND SUPPORTING DATA
ESSENTIAL IF GOE IS TO HAVE REASONABLE CHANCE OF
SUCCESS IN CSD. IN ADDITION TO ANALYTICAL SUPPORT
OFFERED BY AID DIRECTOR, AMBASSADOR PLANS SEND AG-
ATTACHE TO ROME, BRUSSELS AND LONDON IN EARLY 1977
FOR FOLLOWING PURPOSES: ROME TO CONSULT FODAG
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ON POLITICS AND PROCEDURES OF CSD; BRUSSELS TO
CONSULT USEC ON LIKELY EC RESPONSE TO GOE REQUEST;
LONDON TO OBTAIN STATISTICS FROM INTERNATIONAL
WHEAT COUNCIL RELEVANT TO LEVEL OF UMR. MISSION
WILL THEN BE IN BETTER POSITION TO ASSIST GOE IN
PREPARING REQUEST FOR RENEGOTIATION OF UMR.
THEREAFTER USG MAY WISH CONSIDER POLITICAL DEMARCHES
URGING EC AND OTHER MAJOR SUPPLIERS OF WHEAT/WHEAT
FLOUR TO EGYPT (AUSTRALIA, CANADA AND EC MEMBER
COUNTRIES) TO SUPPORT GOE REQUEST.

7. MISSION IS AWARE THAT CONSIDERATION HAS BEEN
GIVEN TO WHETHER AN INCREASE IN FY-1977 WHEAT
ALLOCATION TO EGYPT SHOULD BE DIRECTLY LINKED TO
AGREEMENT WITH IMF ON REFORM PROGRAM. THIS IS
OBVIOUSLY TRICKY ISSUE TO DETERMINE AT THIS DELICATE
STAGE OF GOE-IMF DISCUSSIONS. AT THIS STAGE,
MISSION IS INCLINED TO USE PROPOSAL TO ASSIST IN
NEGOTIATING LOWER UMRS AND PROVIDE ADDITIONAL
PL-480 WHEAT AS ACTION TO ENCOURAGE GOE TO
PROCEED WITH REFORM RATHER THAN AS LBERAGE IN
FORCING THEM TO IT. IN OTHER WORDS, MISSION
BELIEVES WE SHOULD MAKE OFFER ON UMR RENEGOTIATION
AND INCREASE IN TITLE I PROGRAM IN TERMS OF
RECOGNIZING SERIOUS PROBLEMS GOE FACES IN
ACCEPTING IMF REFORMS AND THAT WE ARE PREPARED NOW TO
MOVE ON ADDITIONAL WHEAT IN ORDER TO HELP GOE
EASE BURDENS WHICH WILL RESULT FROM ACCEPTANCE OF
IMF REFORM AND THAT OFFER SHOULD NOT BE SPECIFICALLY
CONDITIONAL ON ACCEPTANCE OF REFORM PACKAGE.
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